

Message Text

CONFIDENTIAL

PAGE 01 STATE 150685
ORIGIN EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 EB-07 FPC-01 H-01
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04
USIA-06 OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07
/102 R

DRAFTED BY EUR/CAN:JBROH-KAHN:ED
APPROVED BY EUR/CAN:JHROUSE, JR.
-----118279 290051Z /73-62

P 282308Z JUN 77
FM SECSTATE WASHDC
TO AMEMBASSY OTTAWA PRIORITY

C O N F I D E N T I A L STATE 150685

E.O. 11652: GDS

TAGS: ENRG, CA

SUBJECT: EXCHANGE OF LETTERS ON OIL SWAPS

1. LETTER FROM FEA ADMINISTRATOR O'LEARY TO CANADIAN
ENERGY MINES AND RESOURCES MINISTER GILLESPIE REGARDING OIL
SWAPS WAS DELIVERED TO CANADIAN EMBASSY JUNE 28. LETTER
RESPONDED TO GILLESPIE LETTER JUNE 24. FOLLOWING ARE TEXTS
OF LETTERS.

2. O'LEARY LETTER. BEGIN TEXT:
THE PURPOSE OF THIS LETTER IS TO CONFIRM OUR TELEPHONE CON-
VERSATION OF JUNE 16 AND TO RESPOND TO YOUR LETTER OF JUNE
24.
VNE

DURING OUR TELEPHONE CONVERSATION, I REQUESTED THAT THE GOV-
ERNMENT OF CANADA GIVE EARLY CONSIDERATION TO EXCHANGES BE-
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 150685

TWEEN U.S. AND CANADIAN REFINERS OF FOREIGN CRUDE OIL AT
MONTREAL FOR CANADIAN CRUDE OIL DELIVERED TO THE NORTHERN
TIER. WE HAVE EXAMINED THE PRACTICABILITY OF THE FULL RANGE
OF ALTERNATIVES TO FOREIGN EXCHANGES AT MONTREAL AS A MEANS
OF SUPPLYING OUR NORTHERN TIER REFINERS. ON THE BASIS OF
THIS EXAMINATION, I HAVE CONCLUDED THAT U.S. NORTHERN TIER
REFINERS DEPENDENT UPON CANADIAN FEEDSTOCK HAVE NO PRACTICAL

SHORT-TERM ALTERNATIVES TO SUCH EXCHANGES UNTIL A LONG-TERM SOLUTION TO THE PHASEOUT OF CANADIAN CRUDE OIL EXPORTS CAN BE IMPLEMENTED. YOU MAY REST ASSURED THAT WE INTEND TO DO EVERYTHING WITHIN OUR CONTROL TO EXPEDITE A LONG-TERM SOLUTION TO THE NORTHERN TIER SUPPLY PROBLEM.

IN MAKING THIS REQUEST, I AM MINDFUL OF CERTAIN OF CANADA'S CONCERNS REGARDING EXCHANGES AT MONTREAL INVOLVING FOREIGN CRUDE OIL AND HOPE THAT THESE CONCERNS MAY BE RESOLVED IN THE CONTEXT OF OUR FURTHER DISCUSSIONS ON THIS MATTER.

YOUR STAFF HAD EARLIER INFORMED US THAT IT WOULD TAKE ABOUT 90 DAYS FOR CANADA TO CONSIDER AUTHORIZING THESE EXCHANGES AT MONTREAL. IT WAS TO INITIATE THIS PROCESS THAT I INSTRUCTED MR. CLEMENT B. MALIN, ASSISTANT ADMINISTRATOR FOR INTERNATIONAL ENERGY AFFAIRS, TO DISCUSS OUR POSITION WITH DEPUTY MINISTER GORDON MCNABB, AT THEIR MEETING IN OTTAWA ON JUNE 9.

I UNDERSTAND FROM MALIN THAT NOT ONLY DID HE TALK WITH MR. MCNABB AND MORE EXTENSIVELY WITH ASSISTANT DEPUTY MINISTER DIGBY HUNT, BUT HE ALSO GAVE MR. MCNABB AT MY REQUEST A COPY OF A DRAFT LETTER TO YOU FROM ME WHICH REQUESTED YOUR CONSIDERATION OF EXCHANGES AT MONTREAL. THIS LETTER AND OUR TELEPHONE CONVERSATION SUPPLEMENT THAT

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 150685

DRAFT, BUT I ASSUME MALIN'S VISIT LAUNCHES THE POLICY REVIEW PROCESS. IF NOT, I REITERATE MY TELEPHONE REQUEST THAT YOU GIVE EARLY POLICY CONSIDERATION TO EXCHANGES AT MONTREAL.

WITH RESPECT TO YOUR LETTER OF JUNE 24, I WOULD AGREE WITH YOU THAT "WE SHOULD STRIVE TO ACHIEVE A COMMON VIEW OF THE CURRENT SITUATION." I HAVE, THEREFORE, INSTRUCTED THAT THE SPECIFIC INFORMATION YOU REQUESTED IN YOUR LETTER BE SUPPLIED TO YOU WITHIN TWO WEEKS. I WOULD SUGGEST A JOINT MEETING OF OUR STAFFS THE FOLLOWING WEEK TO COME TO AGREEMENT ON THE TECHNICAL ASPECTS OF THE ISSUE.

I RECOGNIZE YOUR CONCERN WITH RESPECT TO THE POLICY ISSUES AT STAKE. AT THE SAME TIME, I BELIEVE YOU WILL RECOGNIZE MY CONCERN WITH RESPECT TO ASSURING THAT THE ENERGY NEEDS OF OUR NORTHERN TIER ARE MET. AN EARLY DECISION ON YOUR PART, THEREFORE, IS CRITICAL.

PLEASE ADVISE ME IF THERE ARE ADDITIONAL WAYS IN WHICH OUR JOINT CONSIDERATION OF THE PROBLEM CAN BE EXPEDITED. SINCERELY, JOHN F. O'LEARY ADMINISTRATOR. END TEXT.

3. GILLESPIE LETTER. BEGIN TEXT:

YOUR CALL LAST THURSDAY ADVISING ME OF YOUR EXPECTATION

THAT A CRITICAL EMERGENCY SHORTAGE OF LIGHT CRUDE OIL IN THE AMOUNT OF PERHAPS FIFTY THOUSAND BARRELS A DAY WILL DEVELOP IN THE NORTHERNTIER THIS FALL CAME AS SOMETHING OF A SURPRISE.

I LOOK TO OUR NATIONAL ENERGY BOARD FOR ADVICE ON POTENTIAL SUPPLY PROBLEMS FOR UNITED STATES REFINERS RESULTING FROM IMPLEMENTATION OF ITS EXPORT PROGRAM. THE BOARD HAD TOLD ME THAT, UNDER ASSUMPTIONS WHICH HAVE SO FAR BEEN BORNE OUT BY EVENTS, THERE IS UNLIKELY TO BE ANY SIGNIFICANT FEED-
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 150685

STOCK SUPPLY PROBLEM FOR PRIORITY 1 REFINERS IN THE PERIOD THROUGH MID-1979. I UNDERSTAND THAT AMERICAN APPRAISALS OF THE SITUATION UNTIL RECENTLY LED TO SIMILAR CONCLUSIONS. THE FACT THAT SOME "LOWER-48 EXCHANGES" ARE TAKING PLACE TO SUPPORT DELIVERIES OF CANADIAN OIL TO PRIORITY 1 PLANTS SUGGESTS THAT THE PRIORITY 1 REFINERS' CURRENT PROBLEMS ARE NOT CRITICAL.

IT SEEMS TO ME THAT WE SHOULD STRIVE TO ACHIEVE A COMMON VIEW OF THE CURRENT SITUATION AND ITS PROBABLE DEVELOPMENT OVER THE NEXT YEAR OR SO. IN THIS CONNECTION WE ARE AWAITING THE FEA'S APPRAISAL OF THE PIPELINE CAPACITY AND UTILIZATION SITUATION AS IT AFFECTS THE SCOPE FOR LOWER 48 EXCHANGES. WHEN THE BOARD HAS HAD TIME TO REVIEW THIS AND ANY OTHER RELEVANT NEW DATA AVAILABLE FROM YOUR SIDE, I WOULD PROPOSE THAT OFFICIALS SHOULD MEET URGENTLY AND TRY TO COME UP WITH SOME AGREEMENT AS TO TECHNICAL ASPECTS OF THE PROBLEM. DEPENDING ON THE OUTCOME, I COULD THEN GIVE ATTENTION TO THE POLICY PROBLEMS WHICH WOULD BE POSED WHICH, AS YOU KNOW, ARE CONSIDERABLE.

IN THIS CONNECTION, IT WOULD BE HELPFUL TO KNOW THAT YOUR GOVERNMENT WAS TAKING WHATEVER STEPS MAY BE POSSIBLE TO CONCENTRATE AVAILABLE LOWER 48 EXCHANGES IN THE PRIORITY 1 AREA AND TO ENABLE PRIORITY 1 REFINERS TO BID FOR INDIGENOUS CRUDE OIL SUPPLIES WHICH COULD POTENTIALLY BE DRAWN INTO THAT MARKET.

IN CLOSING, MIGHT I SAY HOW GRATIFIED I WAS TO LEARN THAT THE FEA'S MODIFIED CANADIAN ALLOCATION PROGRAM IS TO BE IMPLEMENTED EFFECTIVE JULY 1. OFFICIALS CONFIDENTLY ADVISE ME THAT THIS SHOULD BRING TO AN END THE PROBLEM OF DISPOSAL OF CANADIAN HEAVY CRUDE OILS WHICH HAS BEEN SO TROUBLE-
CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 150685

SOME TO BOTH COUNTRIES. YOURS SINCERELY, ALASTAIR GILLESPIE. END TEXT.

4. FOLLOWING IS BACKGROUND INFORMATION SUPPLIED BY FEA, AT AMBASSADOR'S REQUEST. BEGIN BACKGROUND.

DURING DEPUTY ASSISTANT SECRETARY BOSWORTH/MALIN ENERGY CONSULTATIONS WITH CANADIAN ENERGY AND EXTAFF OFFICIALS IN OTTAWA ON JUNE 9, MALIN INFORMED CANADIANS THAT FEA HAD COMPLETED A PRELIMINARY STUDY OF SO-CALLED "PRE-CONDITIONS" TO MONTREAL EXCHANGES. SINCE EM&R HAD PREVIOUSLY ADVISED ROUGHLY NINETY DAYS WOULD BE NEEDED TO REACH POLICY LEVEL DECISION, MALIN URGED IMMEDIATE CONSIDERATION BE GIVEN TO MONTREAL EXCHANGES. FEA FELT THAT USG COULD DEMONSTRATE THAT PRACTICAL SHORT-TERM ALTERNATIVES TO MONTREAL EXCHANGES WERE NOT AVAILABLE TO THE MOST SERIOUSLY AFFECTED NORTHERN TIER REFINERIES IN MONTANA AND MINNESOTA. IT WAS RECOGNIZED THAT USG WOULD HAVE TO PROVIDE FACTS AND FIGURES BEFORE CANADA COULD AGREE TO EXCHANGES AT MONTREAL, BUT THAT EVEN IF USG COULD DEMONSTRATE A TECHNICAL NEED, THE ISSUE REMAINED FOR CANADA A POLITICAL ONE.

MALIN THEREFORE SUGGESTED THE CANADIANS ADDRESS THE POLITICAL ISSUE IMMEDIATELY WHICH IF NEGATIVELY RESOLVED WOULD RENDER ANY FURTHER TECHNICAL EXERCISE MOOT. HE ALSO STRESSED THE IMPORTANCE OF TIMING SINCE NORTHERN TIER REFINERS WOULD NOT TAKE THE EXCESSIVELY COSTLY ALTERNATIVE COURSES OF ACTION OPEN TO THEM, OR ELECT TO SHUT DOWN, UNTIL ALL POSSIBILITIES OF MONTREAL EXCHANGES HAS BEEN EXHAUSTED.

SPECIFICALLY, MALIN ASKED FOR AN EARLY CANADIAN GOVERNMENT JUDGMENT ON THREE ISSUES:

A. RECOGNIZING THE SENSITIVITY OF THE ISSUES

CONFIDENTIAL

CONFIDENTIAL

PAGE 06 STATE 150685

SURROUNDING THE SARNIA/MONTREAL PIPELINE, WOULD THE GOC UNDER ANY CIRCUMSTANCES CONSIDER REDUCING THE THROUGHPUT BELOW THE 250 MB/D CAPACITY TO PROVIDE EXCHANGE VOLUMES TO NORTHERN TIER REFINERS AGAINST A MONTREAL PAYBACK?

B. IF THE ANSWER TO "A" IS NEGATIVE, WOULD THE

GOC CONSIDER MAKING AVAILABLE SOME OF ITS SHUT-IN LIGHT
CRUDE OIL CAPACITY AGAINST A TIME EXCHANGE?

C. WAS THE OFFER MADE BY MINISTER GILLESPIE TO
VICE PRESIDENT MONDALE, DR. SCHLESINGER AND MR. O'LEARY,
DURING HIS MARCH VISIT TO WASHINGTON, OF A CONTINUED
FLOW OF 250 MB/D OF OIL TO THE US IN EXCHANGE FOR USG
UTILIZATION OF THE WABANA MINE FOR STRATEGIC RESERVE
STORAGE, STILL A VIABLE CONSIDERATION?

MALIN NOTED THAT WE HAD HAD NO FURTHER WORD ON
THE WABANA TRADE-OFF, BUT THAT IT SEEMED TO RAISE SOME
OF THE SAME ISSUES AS MONTREAL EXCHANGES, SPECIFICALLY
THE SARNIA/MONTREAL PIPELINE BACKOUT. HE ALSO NOTED THAT
SINCE THE PRELIMINARY ECONOMICS OF WABANA WERE NOT
COMPELLING, USG INTEREST WOULD BE CONTINGENT ON THEIR
BEING AN ATTRACTIVE QUID PRO QUO.

GILLESPIE'S LETTER RESPONSE DOES NOT ADDRESS POLICY
ISSUES BUT RESORTS TO SUGGESTING FURTHER TECHNICAL
DISCUSSIONS. FEA IS PREPARING TECHNICAL MATERIAL BUT
CRITICAL AND TIMELY POLITICAL ISSUES WILL STILL REQUIRE
EARLY RESOLUTION IF NORTHERN TIER REFINERS ARE TO AVOID
PRODUCT SHORTAGES PERHAPS AS EARLY AS FOURTH QUARTER
THIS YEAR. END BACKGROUND. VANCE

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: OILS, TEXT, TRADE, DIPLOMATIC COMMUNICATIONS, PETROLEUM PIPELINES
Control Number: n/a
Copy: SINGLE
Sent Date: 28-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE150685
Document Source: CORE
Document Unique ID: 00
Drafter: KAHN:ED
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770231-0418
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770610/aaaaaike.tel
Line Count: 248
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: ccf7f72-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1992180
Secure: OPEN
Status: NATIVE
Subject: EXCHANGE OF LETTERS ON OIL SWAPS
TAGS: ENRG, CA, US
To: OTTAWA
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/ccfe7f72-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009